

## Decisions for SMEs Adopt Financial Accounting Standards (SAK) for Micro and Small and Medium Entities

Kurniawan<sup>\*1</sup>, Mukrodin<sup>2</sup>, Ramadhanti<sup>3</sup>, Setyawati<sup>4</sup>

<sup>1,2</sup>Universitas Peradaban, Indonesia

<sup>3,4</sup>Universitas Jendral Soedirman, Indonesia

Author's Correspondence: [wawan1020@yahoo.co.id](mailto:wawan1020@yahoo.co.id)<sup>\*1</sup>

### Abstract

*To survive in an increasingly complex global environment, micro and small and medium enterprises have developed new strategies to adopt financial accounting standards, which are effective from 1 January 2018, expected to create flexibility in the implementation and ease of access to banking funding in small micro entities and medium. The research objective is to find out the factors that provide the impetus to adopt SAK EMKM in small and medium micro enterprises using multiple linear regression analysis, the results of the analysis show that the adoption of the latest financial standards is influenced by several factors including knowledge, interaction of individual factors and technical factors, and the age of MSMEs. MSMEs have the potential to use accounting standards in accordance with the age of MSEs*

**Keywords:** MSMEs, Adoption of SAK EMKM

### A. Introduction

Micro, Small and Medium Enterprises (MSMEs) have an important role in economic growth, employment, and distributing development results. Data from the Central Statistics Agency of 2017 shows that the number of MSMEs for the period of 1997-2013 was 57,895,721,000 with a total growth of 2.41% and the total employment of 114,144,082,000 people, having a workforce absorption of around 97% of all national workers and contributing against gross domestic product (GDP) of around 57% (Statistik 2016)

Although it has an important role, still MSMEs get problems such as financing problems, recorded based on data from Indonesian banks in 2014, of 56.4 million MSMEs throughout Indonesia, only 30% were able to access financing, of which 76.1% of who get access to credit financing from bank sources, and the remaining 23.9% access from savings and loans such as cooperatives, a large number of 70% of the number of MSMEs do not have access to banking financing (LPPI 2015)

Besides that, although MSMEs have business potential to develop, some of the problems that are still often faced include lack of knowledge of sales recording techniques, lack of knowledge and understanding of the importance of recording sustainable sales, business and family bookkeeping often not separated, so that business capital is used not for investment but to meet family consumption needs.

These problems cause limitations in asset management, business turnover, cash flow, financing structure and operating income, so that the impact on business decision making is unfounded, only considering one side of the business owner's experience, not based on the financial side that has an important role in sustainability business.

Financial Accounting Standards (SAK) Micro and Small and Medium Enterprises (EMKM) have been issued and entered into force January 1, 2018 as determined by the Indonesian Financial Accounting Standards Board, but the birth of these new standards for MSMEs to adopt is very difficult, as is the birth of standards the new IFRS for SMEs as a standard that is difficult to implement in MSMEs, in addition to the absence of policy, the adoption of standards becomes impossible (Masca and Finance 2012)

Estébanez, Grande et al. (2010) explained that service companies in Spain in addition to utilizing information technology for banking and fiscal management, service companies are also more open to accept new standards in line with increased knowledge of standards, as a driving force for SME strategy and sustainable improvement of the company. This illustrates that the complexity of small-scale manufacturing businesses to adopt standards does not only occur in Indonesia but in some countries also experience the same thing (Dang-Duc 2011, Perera and Chand 2015).

Research (Kurniawan and Haryanti 2016) states that the availability of a formal accounting system is influenced by several factors including financial management skills, age and size of MSMEs. MSMEs have the potential to use accounting standards in accordance with the size of MSMEs, to initiate changes to the use of the latest standards, it requires internal factors that exist in the human self that drives the success of these changes (Jack Walker, Armenakis et al. 2007, Rafferty, Jimmieson et al. 2013)

Personal characteristics inherent in individuals include age, level of education and experience, commitment to traditional accounting values, individual disposition to change, personal impact on change, and perception of the usefulness of financial statements, giving changes to individual perceptions of the adoption of change. the higher the level of education and experience will provide an understanding of perceptions about the costs of adopting changes in financial statements (Morris, Gray et al. 2013, Kılıç, Uyar et al. 2014, Phan, Mascitelli et al. 2014, Fontes, Rodrigues et al. 2016) provide an illustration that the technical factors considered interact with the personal characteristics possessed.

In order to survive in global competition, many small businesses are developing new strategies in addition to the adoption of information technology as well as the adoption of financial accounting standards based on the business sector being carried out, it requires harmonization so that the knowledge and interests of business owners to adopt information technology and the adoption of financial accounting standards between MSMEs become aligned, towards continuous improvement of MSMEs (Estébanez, Grande et al. 2010)

Good knowledge of IFRSs EMKM will provide an impetus for the use of IFRS standards in their businesses, the development of previous SAKs issued by the Financial Accounting Standards Board (DSAK) referred to as SAK ETAP came into effect January 1, 2011, SAK ETAP is expected to be more easily understood (Rudiantoro and Siregar 2012), but DSAK issued a simpler new standard, SAK EMKM was born in Indonesia as a form of entity financial statements prepared using accrual basis and business continuity assumptions, as used by entities other than micro, small and medium entities, and using the concept of a business entity.

The development of standards will give a boost to software upgrading (Montero and Quirós 2006) not a few UMKM reject accounting software (Rudiantoro and Siregar 2012) the software is to simplify the standard so that it is easy to implement by small businesses, some of the software that has been developed includes lamikro, SI APIK, and esakemkm, this application is provided free of charge to its users, so the adoption fee does not become a problem for MSMEs to implement it. But still a problem, in

addition to limited information, training activities are still rarely carried out, and MSMEs prefer to use Microsoft Excel to process their transaction data.

## **B. Research Methods**

This research will be carried out in the districts of Brebes and Banyumas, with several considerations underlying the selection of MSMEs in the districts of Brebes, and Banyumas are:

1. These two regencies are small industrial centers or MSMEs that have relatively similar problems,
2. The minimum number of employees in MSMEs is between 10 and 600 employees, and
3. Having legal status as a company registered with the local regional government as evidenced by SIUP or TDP.
4. UMKM was established in 2000
5. Maximum total assets of Rp. 50,000,000 (fifty million rupiah)
6. Maximum operating profit of Rp. 50,000,000,000 (Fifty billion rupiah)

Primary data is obtained from MSME owners, employees, and SKPD in charge of MSMEs (Disperindagkop). This primary data is in the form of responses from UMKM voters to closed and open question items related to their attitudes and intentions to adopt SAK EMKM Financial Accounting Standards. The sampling method that will be used to select respondents is purposive sampling, and analysis using multiple linear regression to determine the effect of SAK EMKM adoption on small and medium micro enterprises on knowledge, interaction of individual factors and technical factors, age and size of MSMEs.

## **C. Result and Discussion**

### **1. Description of MSMEs Data in Brebes Regency**

Based on chemical, agro, and forest product groupings, the number of businesses in Brebes Regency in 2016 amounted to 8,600 in the formal sector reaching 2,895 and non-formal reached 5,705, with employment reaching 21,731

people with the value of production in the formal sector reaching 1,412 billion and non-sector formal reach 732 billion. Electronics and various formal sectors reached 75 while the non-formal sector reached 545 with employment reaching 2,223, the value of formal sector production reached 31 billion while non-formal reached 1,197 billion. Whereas in the metal industry, machinery and engineering the formal sector reached 425 and non-formal reached 471 by absorbing 2,145 workers with the value of production in the formal sector reaching 54 billion and the non-formal sector reaching 185 billion.

The number of micro, small and medium enterprises (MSMEs) in Brebes regency experienced growth, but still faced fundamental problems including the incompleteness of information about the future and limited resources, so it was very difficult to measure the performance of MSMEs whether they were efficient and effective or not. The following results of the survey in Brebes Regency towards the MSME sector are as follows:

Table 1 Data on MSMEs in Brebes Regency

No	Information	Number	Units
1	Number of MSMEs	16.791	Unit
2	Total Manpower	47.832	Orang
3	Assets	1.048	Milyar
4	Sales	3.256	Milyar

(Dinas Koperasi, UMKM 2015)

Based on the grouping of legal entities the number of companies can be explained as follows:

Table 2 Business groupings based on the legal entity of Brebes Regency

Legal Person Type	2015	2016
Private Company	62	111
CV/ General Partnership	190	251
Cooperative	9	24
Individual	811	987
Other	3	2

Sumber: Dinas Penanaman Modal dan Pelayanan Terpadu Satu Pintu Kabupaten Brebes 2017

## 2. Description of MSMEs Data in Banyumas Regency

Banyumas Regency has an area of approximately 132,759.56 ha with a total of 37,481 operating companies in the agriculture and forestry sectors, with employment of 88,817 workers, while in the Inorganic chemical industry sector reached 2339 with a total workforce of 5,482 workers. Next in the metal, machine and electronics industry, there were 2,413 businesses operating with a total workforce of 9,366 workers, the investment value in the three sectors mentioned above reached Rp. 54,842 trillion.

The development of SMEs in Banyumas Regency is emphasized more on assistance in obtaining organic certificates, besides requiring a long time as well, the focus of development is on strengthening institutions and establishing cooperation with universities and cooperatives. The flagship and potential industries of Banyumas Regency consist of coconut sugar processing with a number of business units reaching 31,246, essential oils reaching 36 businesses, batik reaching 62 business units, snacks or various foods reaching 7,156 businesses and bamboo crafts reaching 7,156 business units. The sector that absorbs the most labor is processing coconut sugar reaching 63,990 workers.

Based on the grouping of legal entities the number of companies according to the form of legal entity in Banyumas Regency can be explained as follows:

Table 3 Business groupings based on the legal entity of Banyumas Regency

Legal Person Type	2015	2016
Perseroan Terbatas	131	250
CV/ General Partnership	282	301
Cooperative	12	15
Individual	197	134
Other	-	1

(Sumber: Dinas Penanaman Modal dan Pelayanan Terpadu Satu Pintu Kabupaten Bsnyumas Tahun 2017)

## 3. Data Analysis

The sample of this research is UMKM in Banyumas Regency and Brebes Regency which amounted to 229 businesses spread in several sub-districts

classified as micro small and medium enterprises, with a minimum of assets based on micro business grouping totaling 105 businesses, 105 small businesses and 19 medium businesses. . The results of the questionnaire distribution can be explained as follows:

Table 4 Description Analysis

Variable	Obs	Mean	Std. Dev.	Min	Max
Individual interaction	218	18,637	3,608	7	28
Age	218	8,761	8,360	1	38
Size	218	7,527	6,958	1	50
Knowledge	218	7.834	2,314	2	13
Adoption SAK	218				
EMKM		12,096	2,869	4	21

The results of the questionnaire distribution show that the highest number of sales per year is IDR 1 trillion, and the lowest is IDR 12 million, large businesses are dominated by furniture businesses, transportation services, building materials, gold craftsmen, chicken farms, printing, computer stores, distributor of cloves, iron construction, and vehicle refueling.

Based on table 4 above shows that the smallest business age is 1 year, and large piling is 50, the smallest business is a pioneering business, just starting to stand up, while for businesses that tend to have long been established, some are inherited from parents. The number of employees is at least one person while the most is 50 people.

Distribution of answers to individual interactions with technical factors most respondents consider it important to be an age of maturity in managing a business, the level of education, the benefits of the existence of standards, the value of a new financial reporting system providing operational benefits for businesses. While knowledge of standards, some respondents have answers that do not know, and are less likely to introduce IFRSs to companies.

Related questions about whether to consider adopting new standards of financial statements, most respondents will consider using, and hope that there are

free training and software available, either financial statement applications or free training activities.

Table 5 Results of Multiple Regression Analysis

Information	Model Mikro	Model Kecil	Medium Model	Overall Model
Age	2,77***	1,68*	0,97	3,51***
Size	-0,42	-1,94	-1,36	-1,45
Individual interaction	2,26**	1,91*	2,74**	4,70***
Knowledge	3,54***	3,02***	1,80*	7,17***

Regression analysis of the SAK EMKM adoption model shows that business age, interaction of individual factors with technical factors, and knowledge have an impact on the adoption of SAK EMKM, this can be evidenced by the significance value of each variable that influences the adoption of SAK EMKM has a probability value smaller than 0.05. The effect of business age on the adoption of SAK EMKM has a value of t count of 3.51 with a probability of 0.001 smaller than 0.05, the interaction of individuals with technical factors has a value of t count of 4.70 with a probability value of 0.000 and knowledge has a value of t count at 7.17 with a probability of 0,000 smaller than alpha 0.05. While the size of the business there is no influence on the willingness to adopt new standards

Based on the test results on the SAK EMKM adoption model, the F value is 15.56 and the probability of 0.000 so that the adoption model is predicted to use variable age, size, interaction of individuals with technical factors, and knowledge related to SAK EMKM is appropriate. R Squared value of 0.4290 is not too high, but 42.90% of the new financial standard adoption model is explained using the research variable.

#### D. Conclusion

The biggest potential of companies in Banyumas and Brebes districts to adopt the latest financial standards is the existence of a financial reporting system that is easily implemented using either a computer or using an easy device such as a smart phone or software provided free of charge, to be implemented on business. Business age



influences the adoption of SAK EMKM, many businesses are mostly hereditary from the family, so that they have a high business age, better management allows businesses to last a long time and always improve business management both the quality of goods and services also increase awareness to bookkeeping good finance, the owner entrusts one person to the accounting department and uses the computer as input and data processing.

The higher the size of the business does not have a relationship with the intention to adopt new standards of SAK EMKM, the number of employees more and more only add to production employees, while the number of employees in the finance department is often small, besides that the administration is no longer using manual systems, most of them are already using computers, so the urge to adopt tends to be small because it considers the amount of additional costs for adding new employees

The interaction of individual factors with technical factors is indicated by the perspective of the owner's age as an indicator of stability in business management so as to understand the advantages and disadvantages of adopting the latest financial standards, higher levels of education especially economic education provide a high boost, because knowing the operational benefits for certain, high benefits and the value of the new financial reporting system, which makes it easier for owners to want to adopt the latest financial standards.

Businesses that invest in the use of high technology devices such as the use of machinery in production operations and the use of computer equipment in their business management, tend to have better knowledge of standards than micro-enterprises, the need for external funding sources of financial institutions and other funding sources. so that business owners consider it important to see the continuity of the business being managed, and the urge to use software that complies with the standards applies more highly than small business owners with knowledge of low standards.

### **Acknowledgement**

Many MSMEs in Brebes and Banyumas districts are carrying out economic activities but still consider it not important to carry out accounting records, because

they are still focused on improving product quality, and product marketing, a high urge to use financial accounting standards in business ventures that open up more changes, more flexibility and invest high resources in the use of technology and information in the operations of their business.

The results show the adoption of the latest financial standards, influenced by age, interaction of individuals with technical factors, and knowledge regarding the latest financial standards can increase perceptions of adopting the latest financial standards, a higher push for business owners who are aware of the software available for free and easily accessible compared to micro business owners who focus more on product quality and marketing.

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